

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Chula Vista (the "City") provides this Management Discussion and Analysis of the City's Comprehensive Annual Financial Report (CAFR) for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

Financial Highlights – Primary Government

Government-Wide Highlights:

Net Assets - The assets of the City exceeded its liabilities at fiscal year ending June 30, 2002 by \$496.7 million. Of this amount, \$78.5 million was reported as "unrestricted net assets" and may be used to meet the government's ongoing obligations to citizens and creditors.

Changes in Net Assets - The City's total net assets increased by \$23.8 million in fiscal year 2002. Net assets of governmental activities increased by \$22.5 million, while net assets of the business type activities increased by \$1.2 million.

Fund Highlights:

Governmental Funds – Fund Balances- As of the close of fiscal year 2002, the City's governmental funds reported a combined ending fund balance of \$264.4 million, an increase of \$51.5 million from the prior year. Of this amount, \$169.1 million represents "unreserved fund balances" available for appropriation.

General Fund - The unreserved fund balance of the general fund on June 30, 2002 was \$34.3 million, an increase of \$7.9 million from the prior year. Included in these figures are \$1.6 million and \$0.1 million, accounted for in funds, such as the Public Liability Reserve Fund, which are considered general fund type funds for financial reporting purposes.

Long-Term Debt:

The City's total debt obligations increased by \$59.2 million (56.33%) during fiscal year 2002. The key factor in this increase was the issuance of \$60.1 million in Certificates of Participation to fund the construction, furniture and fixtures of the new Police Headquarters.

City Highlights

Groundbreaking ceremonies were held in April 2002 and construction began on the 140,000 square foot Police Headquarters Facility.

A new 25-acre \$35 million Public Works Center was dedicated and occupied by Public Works Operations and Engineering staff.

Grand opening festivities were held in early October for a new Fire Station in Rancho Del Rey. The 4,000 square foot station includes a two-truck bay and a large classroom, which will be used in conjunction with the fire training tower on the same site.

Phase one of the new \$80 million Gateway Chula Vista luxury office and retail complex had its grand opening in June 2002. When fully completed the project will encompass 346,000 square feet and include a retail promenade, upscale dining, luxury office space and a four-story parking garage.

The City is in the process of planning for its future. "Chula Vista Vision 2020" will update the city's General Plan, which sets the course for all growth, development and community planning during the next 20 years. Various workshops and community outreach programs have been initiated in an attempt to gather input from the community as a whole.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. They are comprised of the *Statement of Net Assets* and *Statement of Activities and Changes in Net Assets*.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This statement, for the first time, combines and consolidates governmental fund's current financial resources with capital assets and long-term obligations.

The *Statement of Activities and Changes in Net Assets* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the above financial statements have separate sections for three different types of programs or activities. These three types of activities are:

Governmental Activities - The activities in this section are mostly supported by taxes and charges for services. The governmental activities of the City include General Government, Public Safety, Public Works, Parks and Recreation and Library.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the City include primarily Transit Operations.

Discretely Presented Component Units - The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate entity, the Bayfront Conservancy Trust for which the City is financially accountable. Financial information for the Bayfront Conservancy Trust is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 19 through 21 of this report.

Fund Financial Statements and Major Component Unit Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The fund financial statements provide detail information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented in a single column. Further detail on the Non-major funds is presented on pages 92 through 107 of this report.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial capacity.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City has thirty-one governmental funds, of which five are considered major funds for presentation purposes. Each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's five major funds are - the General Fund, Sewer Fund, Development Impact Fee Fund, Redevelopment Agency Capital Improvement Fund and Capital Improvement Fund. Data from the other twenty-six governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 26 through 32 of this report. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 92 through 107 of this report.

Proprietary Funds – The City maintains two different types of proprietary funds - enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Transit and Bayfront Trolley Station Funds. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, stores inventory and its information systems and equipment replacement program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements

use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 34 through 37 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44 through 82 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information providing a budgetary comparison statement for the general fund and sewer fund. Required supplementary information can be found on pages 84 through 87 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Chula Vista, combined net assets (government and business type activities) totaled \$496.7 million at the close of the fiscal year ending June 30, 2002. This is an increase of \$23.8 million or 5.0% from the previous fiscal year.

By far the largest portion of the City's net assets (78.6%) reflects its investment in capital assets (e.g. land, streets, sewers, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Chula Vista's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2002	2001 (as restated)	2002	2001 (as restated)	2002	2001 (as restated)
Current Assets	284,041,320	240,554,495	3,350,461	4,619,770	287,391,781	289,676,581
Non-Current Assets	11,227,436				11,227,436	
Capital Assets	392,787,626	366,927,670	7,951,380	5,394,218	400,739,006	372,321,888
Total Assets	688,056,382	607,482,165	11,301,841	10,013,988	699,358,223	617,496,153
Current Liabilities	41,137,577	43,406,636	1,925,904	1,886,442	43,063,481	30,641,774
Long-term Liabilities	159,615,697	99,307,958	-	-	159,615,697	158,461,578
Total Liabilities	200,753,274	142,714,594	1,925,904	1,886,442	202,679,178	144,601,036
Investments in Capital						
Net of Related Debt	382,552,076	366,974,488	7,951,380	5,394,218	390,503,456	372,368,706
Restricted	27,640,955	59,806,255	-	-	27,640,955	59,806,255
Unrestricted	77,110,077	37,986,828	1,424,557	2,733,328	78,534,634	40,720,156
Total Net Assets	<u>\$ 487,303,108</u>	<u>\$ 464,767,571</u>	<u>\$ 9,375,937</u>	<u>\$ 8,127,546</u>	<u>\$ 496,679,045</u>	<u>\$ 472,895,117</u>

An additional portion of the City's net assets (5.57%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$77.1 million, may be used to meet the government's ongoing obligations to citizens and creditors.

Changes in Net Assets

The City's net assets increased by \$23.8 million or 5.0%, from the prior fiscal year. In fiscal year 2002, City expenses, which include both governmental and business-type activities, exceeded program revenues by \$86.6 million resulting in the use of that amount of general revenues. The City's expenses cover a range of services. The largest expense categories were Public Works, Public Safety and General Government. Further analysis is provided within the governmental and business-type activity sections below.

City of Chula Vista's Changes in Net Assets
Fiscal Year Ending June 30, 2002

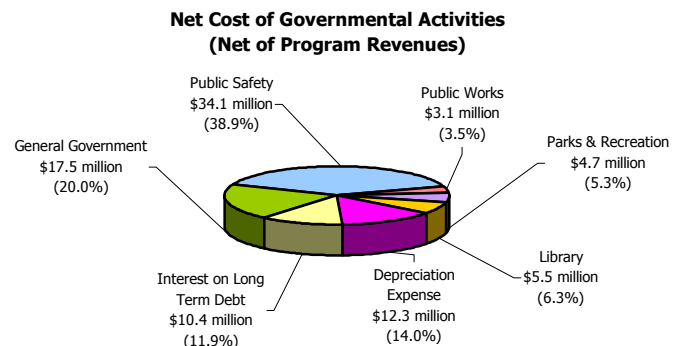
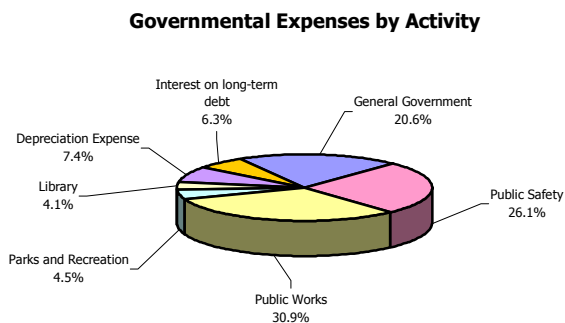
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program Revenues:			
Charges for Services	51,665,178	2,289,591	53,954,769
Operating Grants and Contributions	24,516,560	2,621,995	27,138,555
Capital Grants and Contributions	1,627,819	3,248,226	4,876,045
General Revenues:			
Property Taxes	20,101,086		20,101,086
Sales Taxes	18,812,328		18,812,328
Special Assessments	3,991,046		3,991,046
Other Taxes	20,779,858		20,779,858
Grants and Contributions (not restricted)	11,025,887		11,025,887
Developer Fees	14,639,125		14,639,125
Investment Earnings	18,205,856	316,569	18,522,425
Other Revenues	2,561,667	(6,423)	2,555,244
Total Revenues	<u>187,926,410</u>	<u>8,469,958</u>	<u>196,396,368</u>
Expenses:			
General Government	34,131,760		34,131,760
Public Safety	43,242,726		43,242,726
Public Works	51,083,048		51,083,048
Parks and Recreation	7,439,500		7,439,500
Library	6,790,194		6,790,194
Depreciation Expense	12,310,118		12,310,118
Interest on long-term debt	10,438,706		10,438,706
Transit Operations		7,175,941	7,175,941
Total Expenses	<u>165,436,052</u>	<u>7,175,941</u>	<u>172,611,993</u>
Increase (Decrease) in Net Assets Before Transfers	22,490,358	1,294,017	23,784,375
Transfers	45,179	(45,626)	(447)
Change in Net Assets	22,535,537	1,248,391	23,783,928
Net Assets, Beginning of Year (as restated)	464,767,571	8,127,546	472,895,117
Net Assets, End of Year	<u>487,303,108</u>	<u>9,375,937</u>	<u>496,679,045</u>

Governmental Activities

Governmental activities increased the City's net assets by \$22.5 million accounting for 94.8% of the City's total growth in net assets of \$23.8 million. A comparison of the cost of services by function for the City's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities.

Expenses Net of Program Revenues:		Governmental Activities
General Government		(17,535,526)
Public Safety		(34,120,007)
Public Works		(3,062,255)
Parks and Recreation		(4,670,695)
Library		(5,489,188)
Depreciation Expense		(12,310,118)
Interest on long-term debt		(10,438,706)
Total Governmental Activities		<u>(87,626,495)</u>
General Revenues:		
Taxes		63,684,318
Grants and Contributions (not restricted)		11,025,887
Developer Fees		14,639,125
Investment Earnings		18,205,856
Other Revenues		<u>2,561,667</u>
Total General Revenues		<u>110,116,853</u>
Increase in Governmental Activities Net Assets		<u>\$ 22,490,358</u>

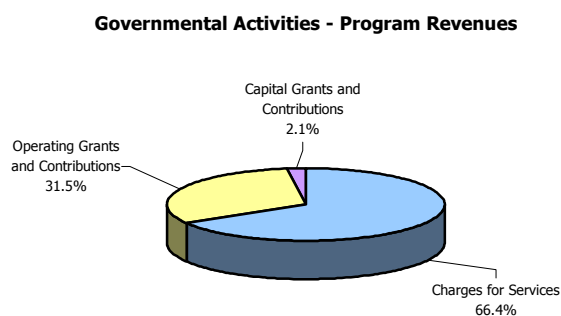
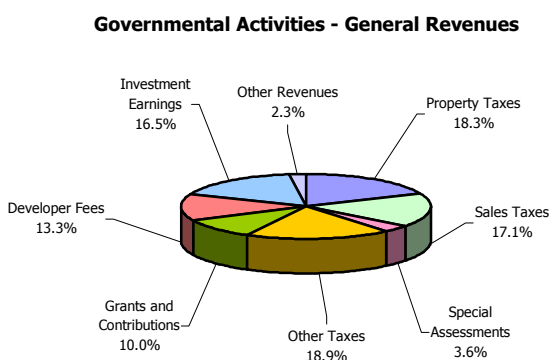
Total governmental activity type expenses were \$165.4 million in fiscal year 2002. The largest expenses were incurred for Public Works, Public Safety and General Government. These expenses do not include capital outlays, which are now reflected in the City's capital assets.



Total program revenues from governmental activities were \$77.8 million in fiscal year 2002. Per GASB 34, program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the

government's general revenues. As reflected in the pie chart below, 66.4% of the governmental program revenues came from Charges for Services, which includes licenses and permits, plan checking fees, developer fees and several other revenues. Program revenues under the Operating Grants and Contributions category include restricted revenues such as Gas Tax, Transportation Sales Tax, Asset Seizure funds and Federal/State Grants.

General revenues are all other revenues not categorized as program revenues such as property taxes, sales taxes and investment earnings. Total general revenues from governmental activities were \$187.9 million in fiscal year 2002. The largest percentage of general revenues received during fiscal year 2002 for the governmental activities were Other Taxes, \$20.8 million, which include franchise fees, transient occupancy taxes, utility users tax, business license tax and residential construction tax.



Business Type Activities

Net assets for business-type activities were \$9.4 million, an increase of \$1.2 million from the prior fiscal year. Total program revenues for business-type activities were \$8.2 million. The largest program revenues were in Capital Grants and Contributions of \$3.2 million, related to buses contributed by the San Diego Metropolitan Transit Development Board. Other program revenues included Operating Grants and Contributions of \$2.6 million, which is the City's share of Transportation Development Funds and Charges for Services, which includes bus fare fees of \$2.3 million. Total expenses for the business-type activities were \$7.2 million during fiscal year 2002, which were related to Transit Operations.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial capacity. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$264.4 million. Approximately, \$169.1 million of this amount constitutes unreserved and undesignated fund balance, which is available for spending at the government's discretion. The

remainder of fund balance is reserved to indicate that it is not available for spending because it has already been legally committed.

General Fund – Included as part of the general fund for financial reporting purposes is the General Fund, which is the primary operating fund of the city, the Workers Compensation Fund, Flexible Spending Account Fund and the Public Liability Reserve Fund, which are considered general fund type funds for financial reporting purposes.

At the end of the current fiscal year, unreserved fund balance of the general fund was \$34.3 million, while total fund balance reached \$56.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 32.5% of total general fund expenditures including transfers out, while total fund balance represents 53.3% of that same amount.

During the current year, unreserved fund balance of the general fund, excluding the other general fund type funds, increased to \$32.7 million. This represents 29.9% of the general fund operating budget. This is greater than the City Council's targeted minimum reserve level of 8% of the operating budget for the general fund. It should be noted that \$1.5 million in designations for capital improvement projects are included in the total unreserved fund balance of \$32.7 million, bringing the net total available fund balance to \$31.2 million.

The available fund balance of the City's general fund increased by \$7.5 million during the current fiscal year. Key factors in the growth are as follows:

- An increase in Franchise Fee revenue due primarily to a spike in natural gas prices in the Fall of 2001 - \$3.9 million.
- An increase in Investment Earning due to increase cash balances in the pooled cash fund - \$0.6 million.
- State Motor Vehicle License Fee revenue increase attributed to an increase in car sales and population growth in the City – \$1.0 million.
- Several departments realized significant savings as a result of a variety of factors. Some of the most significant occurred due to savings in utilities, vacant positions, delays in the police technology project and delays in the opening of Heritage Park.

Sewer Fund– The Sewer Fund is used to account for a variety of sewer service related revenues and expenditures. At the end of fiscal year 2002, the unreserved fund balance for the sewer fund was \$27.4 million, which is a decrease of \$4.8 million from the prior fiscal year. The decrease is related to an increased commitment "encumbrance" for capital projects (\$3.8 million), such as the Salt Creek Sewer Trunk Project. The remaining decrease is related to an increase in reserve for long-term debts and advances to the Salt Creek Sewer DIF Fund (\$1.3 million). Included in the unreserved fund balance is \$2.3 million in designations for various Capital Improvement Projects.

Development Impact Fee Funds – This fund was established as a depository for various development impact fees. The fees are levied against all new development in the City in order to pay for the construction or improvement of public facilities as a result of City growth. At the end of fiscal year 2002, the unreserved fund balance was \$47.2 million, which is an increase of \$2.2 million from the previous fiscal year and related to the continued growth of the City. Since these funds are collected for construction or improvements of public facilities, they have been fully designated for specific projects.

Redevelopment Agency Capital Improvement Fund – The Redevelopment Agency is responsible for redevelopment of areas identified under the Community Redevelopment Law as being blighted. The

Agency's operations are funded primarily by the issuance of debt, which is expected to be repaid out of property tax increment revenue generated by increased in property assessed values in the redevelopment areas.

The Redevelopment Agency Capital Project Fund was established to account for capital improvement projects related to the various redevelopment areas. At the end of fiscal year 2002, the unreserved fund balance was \$10.5 million, a decrease of \$8.3 million from the prior year. The decrease is primarily related to spending down of debt proceeds for various projects (\$6.4 million), loan repayments to the General Fund (\$0.7 million) as well as an increase in operating costs due to updated full cost recovery rates and increased staffing (\$1.2 million). The total unreserved fund balance at June 30, 2002 was \$10.5 million, which is 57.14% of the total operating budget.

Capital Improvement Program – This fund was established to account for monies designated for capital improvement projects. At the end of fiscal year 2002, the fund balance was \$61.0 million, an increase of \$45.1 million from the prior year. The unreserved fund balance was \$60.9 million, which is primarily designated for the construction of the new Police Headquarters.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As discussed in the business-type activities previously, the City's net assets increased by \$1.2 million as a result of operations in the proprietary funds. The increase was primarily attributed to buses contributed by the San Diego Metropolitan Transit Development Board.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget totaled \$117.1 million, including \$10.8 million in amendments to the originally adopted budget. The amendments can be briefly summarized as follows:

- Appropriations of \$5,077,000 were approved for the construction of the new Police Headquarters facility.
- Revised Memorandum of Understandings between the City and the miscellaneous bargaining groups increased appropriations by \$846,607.
- Appropriations of \$939,000 were approved for the H Street Entryway Beautification Plan.
- Appropriations of \$1,521,255 related to litigation and settlement expenses.
- The Police Department received additional Grant funding for Police Technology, Crisis Negotiation Team Van, Staffing and Equipment requiring additional appropriations of \$991,840.
- Additional staffing and salary adjustments for an additional appropriation of \$809,152, in the City Attorney, City Clerk, Planning and Building, Public Works, Administration, and Community Development Departments.

Of the \$10.8 million in "supplemental" appropriations, \$8.0 million were covered by specific funding sources, leaving \$2.8 million to be funded out of available fund balance. During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates. The General Fund unreserved fund balance actually increased by \$7.9 million as previously discussed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of June 30, 2002, amounts to \$400.7 million, net of accumulated depreciation of \$188.8 million. This investment in

capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the City such as roads, bridges, streets and sidewalks, drainage systems, lighting systems and similar items. The total additions to the City's investment in capital assets for the current fiscal year was \$29.9 million, net of accumulated depreciation.

Major capital asset additions during the current fiscal included the following:

- Construction began on the new Police Headquarters, with \$13.4 million incurred during fiscal year 2002, which includes \$4.8 million for the purchase of the land.
- Final remodeling and construction of the new Public Works Center occupied by Public Works Operations and Engineering staff, with \$11.7 million in costs incurred during fiscal year 2002.
- Construction of two new Fire Stations and training classroom with \$0.2 million incurred during fiscal year 2002.
- Design and construction of Salt Creek Trunk Sewer to transport wastewater from the new developments in eastern Chula Vista and to provide additional capacity for the existing wastewater collection systems in southern Chula Vista, with \$3.5 million costs incurred during fiscal year 2002.
- Roadway construction on Olympic Parkway with \$6.0 costs incurred during fiscal year 2002.

Additional information on the City's capital assets can be found in note 5.A on pages 64 through 66 of this report.

Debt Administration

Long Term Debt - At the end of the current fiscal year, the City had \$164.4 million in debt outstanding compared to the \$105.1 million last year, a 56.3% net increase. The increase is largely attributed to the issuance of \$60.1 million in Certificates of Participation to fund the construction, furniture and fixtures for the new Police Headquarters. The building is expected to be completed and occupied by February 2004.

The annual lease payments for such a large borrowing will increase the total annual debt service commitment of the City's General Fund by almost 60% when the first full year payment is due in fiscal year 2005-06. At this time, it is projected that the General Fund annual debt service commitment will total approximately \$10.4 million, or approximately 8% of the projected General Fund operating budget. Viewed in isolation, this percentage may be considered moderately high for a local governmental entity. However, it must be noted that although this amount is truly a General Fund commitment, only \$5.6 million is scheduled to be actually paid from General Fund resources, with the remaining \$4.8 million scheduled to be paid from various special funds, such as development fees and residential construction taxes. It should also be noted that the single largest annual debt service commitment of the General Fund is the \$2 million payment on the Pension Obligation Bonds, which could easily be viewed as an operational expense categorized as personnel retirement, rather than debt service, thereby further reducing the "real" debt burden on the General Fund for comparison purposes. Further detail on long-term debt is available under note disclosure #6 on page 66.

The City has no outstanding general obligation debt. The City maintains a "Ap" rating from Standards & Poors for Certificates of Participation. The Redevelopment Agency maintains a "A-" rating for Tax Allocation Bonds from Standards & Poors. Additional information on the City's long-term debt obligations can be found in Note 6 of the notes to the financial statements.

ECONOMIC CLIMATE

Fiscal Year 2002 was entirely engulfed by the national recession that began in early-2001. Although according to the experts, the economic downturn was generally less severe than most previous recessions, the recovery is predicted to be very gradual beginning sometime in the first half of calendar year 2003.

The impacts to the State and regional economies were less severe than at the national level, with local unemployment rates remaining well below the national average. However, the dramatic decline in the stock market has severely impacted the fiscal condition of the State of California, to the point where it is evident that the solution will include at least moderate impacts to local governments.

Chula Vista's property tax base remains very healthy and growing, with assessed values increasing an average of 11 percent annually from \$6.6 billion in 1998 to \$10.1 billion in fiscal year 2002. This portion of the region continues to attract a historically large percentage of home-buyers due in large part to the median prices for existing homes in Chula Vista being 11 percent less than the regional average. Although sales tax revenue growth slowed significantly during the year, it remained positive as compared to the declines realized in many regions of the State, especially in the San Francisco Bay Area.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all of its citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Chula Vista, Finance Department, 276 Fourth Avenue, Chula Vista, CA 91910.